



CHANGI CAPITAL

IHH healthcare (SGX: Q0F)

BUY TP \$2.20

(Current price \$1.80)

Ready to capture demand, timelines in course for profits.



Valuation

EV/EBITDA for comparison to peer Raffles Medical due to high revenue contribution from SG operations

- $\text{EV/EBITDA (IHH)} = 17.5\text{bn} / 4.04\text{bn} = 12.70$
- $\text{EV/EBITDA (BSL.SI)} = 12.31$

Fairly valued compared with industry peers

- No liquidity issues
 - Positive working capital and long-term asset to liability
 - Interest payment coverage ratio at 9.6x
- Expect EBITDA to increase and EV to follow suit
 - EBITDA to rise due to profit drivers
 - EV to increase at faster rate
 - Investors to bake in expectations of increasing EBITDA in the coming months
 - Total debt increasing due to MnA and greenfield expansions to increase

Leading to increase in share price to TP 2.20SGD (100% upside) in the next 36 months as EV/EBITDA stays equal to industry.

3 Key Profit Growth Drivers

- M & A and Greenfield expansion strategies
- Organic Growth
- Refocusing on ROE generation



M&A and Cluster Expansion Strategy

- Acquiring profit accretive assets with room for optimization
 - Fortis accounted for 14% of IHH EBITDA in 3Q19
 - Restructured debt with revision of corporate credit score to BBB investment grade, reducing average interest payments on new debt from 15% to 10%.
 - Acquisition of RHT, cost savings of RM220m p.a. alone
- Geographical Expansion Strategy
 - Serbia: Bel Medic Group & associated hospitals (referral nodes)
 - 3h flight from Acibadem International Hospital Istanbul
 - Prince Court Medical Center, KL
 - Regional specialist center golden triangle area
 - Turned EBITDA profitable 1 year after takeover
 - GlobalHealth's Medical Tourism Hospital Of The Year

Foreign patients account for significant percent of total revenue

Turnaround timelines on course to generate profits in the next 18-36 months

Greenfield expansion strategy

- **Gleneagles Hong Kong**
 - Breakeven EBITDA only after 40% of bed capacity rolled out
 - Majority of layout costs expensed
 - Continuing rollout of new beds to be for revenue intensive specialised services in the next 18-24 months
- **Mgmt slowed down pipeline of greenfield expansion projects**
 - IHH to enjoy profits from previous profitable greenfield projects instead of using these profits for capex
 - Cools down increase in depreciation charges in next 18-36 months
- **New joint venture approach with parties with shared interest**
 - Taikang Insurance now stakeholder in IHH hospital trust arm in China
 - Clients to be referred to existing and upcoming medical centres

Existing greenfield projects are expected to inject profits into IHH as they complete ramp up. At the same time, lowered capex spending and depreciation charges from slowing greenfield expansion to further improve profit margins.

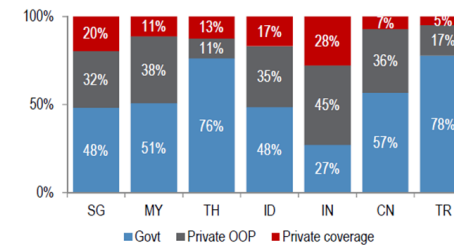


Organic Growth Drivers

External Factors

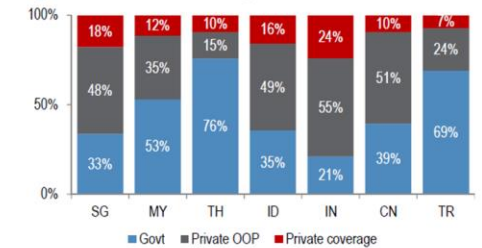
- Aging population will strengthen need for specialised services due to corresponding increase of complex cases
 - ✓ By 2030, more than **20%** of the population will be 65 years old above globally, according to UN data
- Increasing uptake of private insurance/growing insurance penetration
 - ✓ SG, MY, Thailand and China have near 100% of population covered by national health insurance. However, there is still an increasing demand for private healthcare insurance throughout the past decade.
- Rising group of affluent population demanding premium Healthcare services
 - ✓ According to Wang Guangfa, experts in China Healthcare markets say that “Hospitals have been **lagging in infrastructure and talent reserves** over the years.”
 - ✓ According to Global Data’s, **ultra-affluent individuals** in China recorded an increase of from 36.6 million in 2016 to 53.5 million in 2020.

Figure 28: Breakdown of health expenditure in 2017



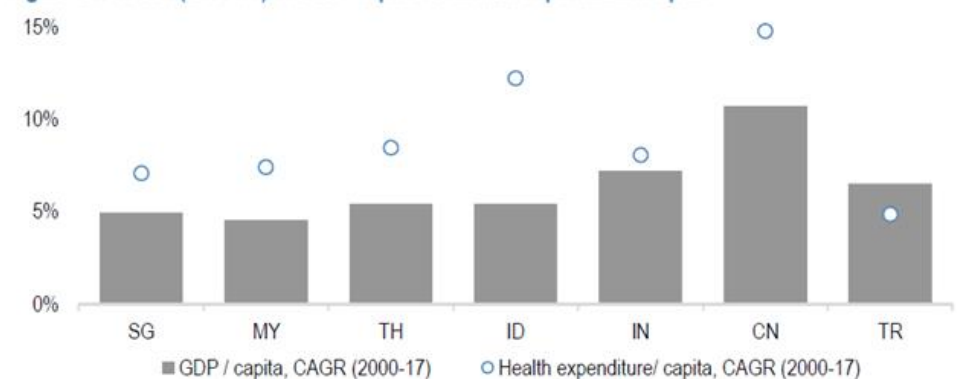
Source: World Bank.

Figure 27: Breakdown of health expenditure in 2007



Source: World Bank.

Figure 24: CAGR (2000-17) of GDP/ capita vs. health expenditure/capita



Source: World Health Organization.

Organic Growth Drivers

Internal Factors

- Focus on specialisation hubs
 - Eg. IHH acquired Bel Medic. Easy access to Turkey, within 3-hour flight radius to over 50 countries
 - In times of economic downturn, despite higher elasticity of demand of specialized services, patient volume from affluent consumer base is unlikely to be swayed.
- Quality service and brand name
 - 65% of specialist in Singapore are employed at IHH Hospitals
 - Several awards and accreditations

Awards and Accreditations

Awards

IHH Healthcare

SBR Management Excellence Awards 2021 by Singapore Business Review

- Executive of the Year – Healthcare Category

All-Asia Executive Team 2021 by Institutional Investor

- Ranked #2 for “Best CEO” and “Best IR Program” (Healthcare & Pharmaceuticals category)

SBR Technology Excellence Awards 2021 by Singapore Business Review

- Mobile – Healthcare Category

Malaysia Book of Records

- Most number of Hashtags in a breast cancer awareness campaign

The Asset Triple A Sustainable Capital Markets Country Awards 2020

- Best M&A deal

Malaysia

Prince Court Medical Centre

GlobalHealth Asia-Pacific Award

- Medical Tourism Hospital of the Year
- Nephrology Service Provider of the Year
- Orthopaedic Service Provider of the Year
- Men's Health Service Provider of the Year

Pantai Hospital Kuala Lumpur

GlobalHealth Asia-Pacific Award

- Hospital COVID-19 Healthcare Service Provider of the Year
- Oncology (Surgical) Service Provider of the Year

Gleneagles Hospital Kuala Lumpur

GlobalHealth Asia-Pacific Award

- Value-Based Hospital of the Year
- Endocrinology Service Provider of the Year
- Diabetes Service Provider of the Year

Gleneagles Hospital Medini Johor

GlobalHealth Asia-Pacific Awards

- Women's Health & Fertility Medical Centre of the Year

Singapore

Mount Elizabeth Hospital

GlobalHealth Asia-Pacific Healthcare and Hospital Awards 2021

- Hospital of the Year
- Best Hospital of the Year in Singapore
- ENT Service Provider of the Year
- Neurology Service Provider of the Year
- Oncology (Medical) Service Provider of the Year
- Stroke Centre of the Year
- Transplant Service Provider of the Year

MOH Nurses' Merit Award

Gleneagles Hospital

GlobalHealth Asia-Pacific Healthcare and Hospital Awards 2021:

- Spine Care Service Provider of the Year
- Respiratory Service Provider of the Year

Turkey & Europe

Acibadem Healthcare Group

Capital 500

- 79th among Turkey's 500 largest companies
- 1st in healthcare category
- 13th among the top 25 companies with the highest number of employees
- 51st among 248 companies in Istanbul based on province

Tech Brands Turkey

- Most Technological Healthcare Brand

Social Media Awards Turkey 2021

- Golden Award – Healthcare Sector

India

Fortis Hospital Anandapur

Economic Times Healthcare Awards

- Best Multi-Speciality Hospital – East

Fortis Escorts Heart Institute

Economic Times Healthcare Awards

- Best Hospital – Cardiology – National

Fortis Memorial Research & Institute

Economic Times Healthcare Awards

- Best Hospital – Cardiology – North
- Best Hospital – Gastroenterology & Hepatology – North

Fortis Hospital, Bannerghatta Road

Economic Times Healthcare Awards

- Best Hospital – Gastroenterology & Hepatology – South

Figure 34: Refinitiv

	IHH (as at 2020)	KPJ (as at 2020)
ESG Combined Score	B	B
ESG Score (Weight 100.0%)	B	B
Environmental Pillar Score (Weight 37.6%)	B-	C+
Social Pillar Score (Weight 30.2%)	B+	B+
Governance Pillar Score (Weight 32.2%)	B+	C+
ESG Controversies Score	A+	A+

SOURCES: GSS-CIMB RESEARCH, COMPANY REPORTS

Refocusing on ROE generation

- Increasing margins through new profitable income streams: Laboratory services, Telemedicine
 - EBITDA margins are **significantly above 25%**, as demonstrated by IHH's capacity to carry out large-scale testing, conducting **36.7% of the cumulative tests** since 2020.
 - Expansion of service offerings: genomics testing and molecular diagnostics,
 - An average of **370** online medical consultations per day in India
- Capital-efficient growth: Specialization hubs
- Vertical integration: Hospital Trusts and Laboratory services
 - High capital expense to acquire assets in the vertical supply chain. However, IHH has been conservative with its balance sheet and has maintained a relatively **healthy gearing ratio of 22%** as of FY21

Laboratories / Accreditations	Leadership position in country** (in revenue)	Labs
	 	5
	 	30
	 	28
	  (via Fortis)	420+

Malaysia	<ul style="list-style-type: none"> COVID lab testing Allocated about 10% of our beds for COVID patients Treating non-COVID patients from government hospitals 19 vaccination centres Drive thru vaccination service 	12%
Singapore	<ul style="list-style-type: none"> Border screening On-arrival testing COVID lab testing Allocated about 15% of our beds for COVID patients 4 vaccination centres 	24%
Turkey & Europe	<ul style="list-style-type: none"> COVID lab testing Treating COVID patients Administered vaccination 	9%
India	<ul style="list-style-type: none"> COVID lab testing Treating COVID patients Administered vaccination 	31%

HLIB Research



Refocusing on ROE generation

- Implementation of standardised Hospital Information Systems: Cerebral Plus
- Vertical integration: Hospital Trusts and Laboratory services
 - RHT: clinical establishment fees/lease payment saved amounts to **RM220.0m per annum**
- Disposal of non-core assets: IMU
 - Sale of IMU to RM1.345bn, EV/EBITDA multiple of 16.6x (based on IMU's adjusted EBITDA of RM81.4m in FY21), which is at an 80% premium to SEGi's EV/EBITDA of 9.2x.



In conclusion

These growth drivers to increase profits in the next 18-36mo

- M&A turnaround timelines to add to profits
- M&A Geographical strategy to reduce costs
- Existing Greenfield projects to complete ramp up and turn maiden net income
- Slowing greenfield pipeline to decrease capex and depreciation charges, improving net earnings
- Specialisation to increase revenue intensity
- Aging and increasingly affluent foreign and local population
- Laboratory and telemedicine services to drive profits
- Vertical Integration leading to cost savings
- Disposal of non-core assets to improve return on equity and maintain healthy debt

